

Testimony

of Ian Watson McLaughlin

*Chairman of the Board and Chief Executive Officer
Watson Machinery International*

on behalf of the National Association of Manufacturers

before the International Monetary Policy and Trade Subcommittee of
the Committee on Financial Services
U.S. House of Representatives

on Reauthorization of the Export-Import Bank

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Good morning, Mr. Chairman. My name is Ian Watson McLaughlin. I am the Chairman of the Board and CEO of Watson Machinery International, a leading manufacturer of high performance machinery, production systems and process solutions to the wire, cable, fiber optic and wireless industries, based in Paterson, NJ. Thank you for the opportunity to testify before the House Financial Services International Monetary Policy and Trade Subcommittee on reauthorization of the Export-Import Bank (Ex-Im Bank). I am testifying on behalf of the National Association of Manufacturers (NAM) – “18 million people who make things in America” – the nation’s largest and oldest multi-industry trade association representing 14,000 members (including 10,000 small and mid-sized companies) and 350 member associations serving manufacturers and employees in every industrial sector and all 50 states.

Many might be surprised that Watson Machinery, a small American business with 90 employees, is even remotely interested in Ex-Im Bank. After all, the claim is often made that Ex-Im Bank is the financial boutique of the Fortune 100. I am here to let you know that Ex-Im

Bank is vital to the “little guy,” filling in the gaps in the financial market for small exporters such as Watson Machinery. The bottom line is that 60% of my company’s sales are outside the United States, and that without Ex-Im Bank, these deals will go to my competitors in Italy, France, Germany and elsewhere, all of whose export-credit agencies do provide the working capital guarantees necessary to support small businesses in their countries.

Watson Machinery International began in 1845 as The Watson Machine Company supplying production machinery to the manufacturing companies in Paterson and across the growing United States. Watson became a leading maker of waterwheels and heavy shafts and gearing, as well as casting iron and brass in our foundry. Our water turbines and steam engines helped provide the power for the great economic boom following the Civil War.

Watson Machinery’s long life as a successful family business is attributed to its ability to adapt to new technologies and service new industries. The latest change occurred in 1998, when we completely overhauled our corporate strategy -- from a distributor of value-added machinery produced by Kinrei of Japan, to a leading global supplier of high performance machinery, production systems and process solutions to the wire, cable, fiber optic and wireless industries. This change did not occur by accident. We recognized that in order to grow and prosper, to continue to provide jobs to our employees, and to continue to fund the R & D efforts necessary to our success, we have to export and be experts in doing international business.

Superior after-sales service and timely global customer support are fundamental components of Watson’s varied product line for the fast growing global telecommunication infrastructure. Today, communications move at the speed of light through fiber optic cables. Many millions of strands, created under incredibly high and exacting tolerances, are produced on Watson machinery. For 150 years, as American industry has moved forward so have we. We plan an equally impressive future, but I need your help. I urge you to support renewal of Ex-Im Bank’s charter, which expires on Sep. 20, 2001.

An illustration of the critical role Ex-Im Bank plays occurred in 2001, when Watson Machinery signed a contract to sell capital machinery worth \$4.6 million – representing two lines for the production of fiber optic cabling equipment and two lines (to manufacture) radio frequency wireless cable – to Ocean Cable and Communication (OCC), of Tochigi, Japan. This sale would not have occurred without the help of Ex-Im Bank's Working Capital Guarantee Program.

To get to the nub of the matter, our banking facility does not allow for financing work-in-process inventory. As this order represented our first penetration of the Japanese marketplace, and the European competition was intense, we did not ask for progress payments. That's where Ex-Im Bank came in. Watson Machinery filed an application for an Ex-Im Bank working capital loan guarantee. The Working Capital Guarantee Program encourages commercial lenders to make loans to U.S. businesses for various export-related activities, including the purchase of raw materials, labor and overhead to produce goods and/or to provide services for export. The guarantee may be used to cover working capital loans to a U.S. business only if the lender shows that the loan would not have been made without Ex-Im Bank's guarantee, and Ex-Im Bank determines that the exporter is creditworthy. In my case, Ex-Im Bank approved a \$3 million guarantee to back Watson Machinery's sale of \$4.6 million in equipment to OCC of Japan

I want to emphasize two points: that the transaction would not have gone forward without Ex-Im Bank, and that this support doesn't come free. Ex-Im Bank only entered into the transaction when the lender showed that the loan would not have been made without Ex-Im Bank's guarantee. In other words, Ex-Im Bank proved that it can fill gaps in the financial market for small business. No corporate subsidy here, particularly when you consider that the export-credit agencies of my competitors overseas are not holding back. For this I paid a \$500 processing fee, and an up-front "facility fee" of 1.5 percent of the total loan amount, which help ensure adequate loan-loss reserves and an acceptable risk level to the U.S. government.

Watson Machinery International will continue to do everything in its power to remain competitive in the global markets. I am here today to ask you to do your part – help fill the gaps in the financial market for small exporters and level the playing field so our people, our technology and our products can compete in the global market. Level the playing field by reauthorizing the Ex-Im Bank. Don't force us to compete with barriers that our competitors overseas do not have to face.

I know more than 80% of Ex-Im Bank's transactions have provided financing for small exporters, but I don't need government reports, statistics or business experts to tell me that that small businesses are an important source for job growth and that they can become even more so through exporting, especially if they have access to competitive financing. For small business, Ex-Im Bank is not a luxury we can afford to do without, but a critical filler of the gap in export financing, without which our international customer base – currently 60% of our sales – will quickly disappear. Thank you.